



# dr.jsmlm

**Dr JS Moroka Local Municipality**

Dr JS Moroka Local Municipality  
Annual Financial Statements  
for the year ended June 30, 2018

Audited  
By

2018 -11- 30

Auditor General South Africa  
Municipal Finance Bill (2018)

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## General Information

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<b>Legal form of entity</b>	Local Municipality
<b>Nature of business and principal activities</b>	Local Municipality
<b>Mayoral committee</b>	
Executive Mayor	Madileng W.T (Elected 12 September 2017) Skosana G.J (Resigned 12 September 2017)
MMC Social Development	Mdluli D.M
MMC Public Safety, Roads & Transport	Mtsweni M.G
MMC Planning & Infrastructure	Segalagala J
MMC Finance & LED	Sibanyoni L.B
MMC Admin & Corporate Services	Sekwala J.M
Speaker	Mathabe R.S
Council Whip	Ntlatlane M.S
Councillors	Mahlangu J.S Nkoane M.R Madonsela T.L Mashishi M.W Banda M.D Nkadimeng S.L Phaahla S.M Mthiwethafa N.C Shabangu M.M Ratsoma P.G Ndlovu A.Z Mahlangu D.P Mnguni P.P Masango A Mphuthi J.M Mthimunya W.E Skhosana J.C Mkoneni J.T Masilela M.L Skosana C.B Aphane S.P Namane A.M Komape A.N Mojela B.N Mkhondo M.S Matji J.S Makgaloa C.M Leballo J.M Nkgodi J.S Lebelo L.K Sekanka M.E Nyatlo T.M Lekalakala T.I Legong T.B Majombosi T.R Makola K.D Moselane M.M

## **Dr JS Moroka Local Municipality**

Annual Financial Statements for the ended June 30, 2018

### **General Information**

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	Mahlangu K Ngoatle M.M Malatjie R.J Mashigoana D.K Masombuka N.Z Ngoako M.M Mtsweni D.N Ntuli K.B Mokoala V.D Baloyi L.W Selala H.N Rankapole M.M Ratladi S.J Maoka R.N Makgakela B.M Maja S.R
<b>Grading of local authority</b>	Grade 3
<b>Capacity</b>	Low
<b>Chief Finance Officer (CFO)</b>	Letsoalo MT
<b>Acting Accounting Officer</b>	Monkoe MF
<b>Registered office</b>	A2601/3 Bongimfundo Street Siyabuswa 0472
<b>Business address</b>	A2601/3 Bongimfundo Street Siyabuswa 0472
<b>Postal address</b>	Private Bag X4012 Siyabuswa 0472
<b>Bankers</b>	ABSA Bank Limited Marble Hall Branch
<b>Auditors</b>	Auditor General South Africa
<b>Attorneys</b>	Nkadimeng Inc Machaba Incorporated Attorneys KA-Mbonane Inc
<b>Published</b>	August 31, 2018

# **Dr JS Moroka Local Municipality**

Annual Financial Statements for the ended June 30, 2018

## **Index**

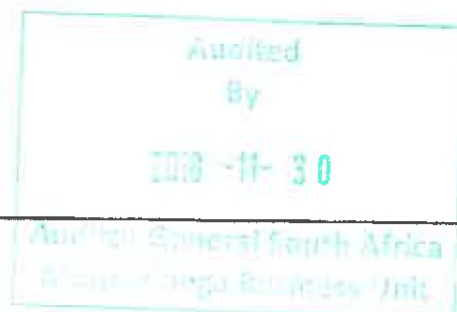
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The reports and statements set out below comprise the annual financial statements presented to the council:

	<b>Page</b>
Accounting Officer's Responsibilities and Approval	4
Accounting Officer's Report	5 - 6
Statement of Financial Position	7
Statement of Financial Performance	8
Statement of Changes in Net Assets	9
Cash Flow Statement	10
Statement of Comparison of Budget and Actual Amounts	11 - 15
Accounting Policies	16 - 31
Notes to the Annual Financial Statements	31 - 67

The following supplementary information does not form part of the audited annual financial statements.

MPAC	Municipal Public Accounts Committee
MEGA	Mpumalanga Economic Growth Agency
FMG	Financial Management Grant
GRAP	Generally Recognised Accounting Practice
SARS	South Africa Revenue Service
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
INEP	Integrated National Electrification Programme
MMC	Member of the Mayoral Committee
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
WSOG	Water Services Operating Grant
EPWP	Expanded Public Works Programme



## Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

### Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial and non financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and must be given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal controls established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the 01 July 2018 to June 30, 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer certify that salaries, allowances and benefits of Councillors as disclosed in note 26 of these Annual Financial Statements are in line with the upper limits of framework envisaged in section 219 of the Constitution read with Remuneration of Public Office Bearers Act, Act no 20 of 1998 and section 124 of the Municipal Management Act, Act 56 of 2003.

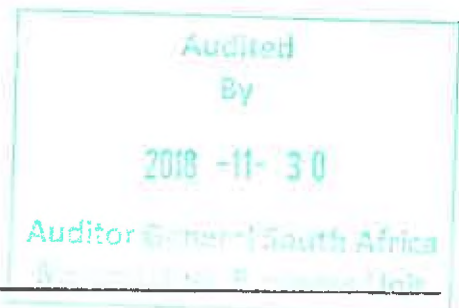
The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements of Dr JS Moroka Municipality set out on pages 5 to 67, which have been prepared on going concern basis, were approved by the municipality on August 31, 2018 and were signed on its behalf by:

  
Monkoe MF  
Acting Accounting Officer

Siyabuswa

Friday, August 31, 2018



# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2018.

### 1. Review of activities

#### Main business and operations

The municipality is engaged in local municipality and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality is R 117,017,515 (2017: deficit R 41,886,353).

### 2. Going concern

We draw attention to the fact that at 30 June 2018, the municipality's current liabilities exceed its current assets by R 13 237 265 and have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year which might require adjustment to the financial information.

### 4. Accounting policies

The annual financial statements prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board and National Treasury guidelines.

### 5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report were as follows:

Name	Nationality	Changes
Monkoe MF	South African	Appointed Thursday, March 1, 2018
Mahlangu MJ	South African	Appointed Wednesday, November 8, 2017, resigned Wednesday, February 28, 2018
Rampedi MR	South African	Appointed Tuesday, August 1, 2017, resigned Tuesday, November 7, 2017
Mahlangu BS	South African	Resigned Monday, July 31, 2017

### 6. Bankers

The municipality banks primarily with ABSA Bank Limited.

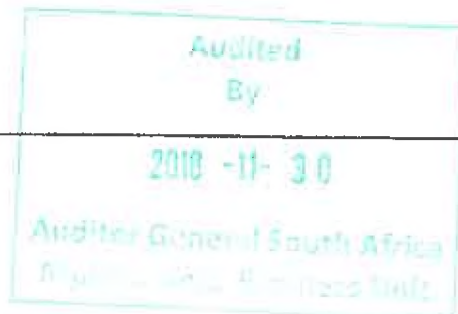
### 7. Auditors

Auditor General South Africa will continue in office for the next financial period.

### 8. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commencement mental text.



## **Dr JS Moroka Local Municipality**

Annual Financial Statements for the ended June 30, 2018

### **Accounting Officer's Report**

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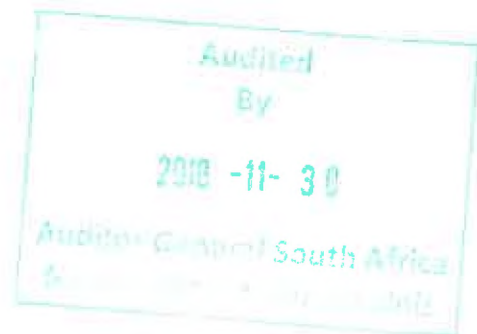
During the financial period under review 30 June 2018, Dr JS Moroka Local Municipality did not enter into any Public Private Partnership agreements.

#### **9. Consumer debtors**

The book value of consumer debtors is standing at R85 559 936 as of 30 June . The above figure is determined after an amount of R280 800 017 in respect of allowance for impairment has been taken into account.

#### **10. mSCOA adoption**

During the financial year the municipality adopted the mSCOA, this resulted in the reclassification of some votes in the financial statements.



**Dr JS Moroka Local Municipality**

Annual Financial Statements for the ended June 30, 2018

**Statement of Financial Position as at June 30, 2018**

	Notes	2018 R	2017 Restated* R
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	3,516,457	4,124,982
Other financial assets	4	-	1,706,585
Operating lease asset		89,800	-
Receivables from exchange transactions	5	10,871,983	12,499,666
Receivables from non-exchange transactions	6	756,700	1,620,497
VAT receivable	7	7,072,426	-
Consumer debtors	8	101,653,786	60,286,627
Cash and cash equivalents	9	1,009,906	2,506,658
		<b>124,971,058</b>	<b>82,745,015</b>
<b>Non-Current Assets</b>			
Investment property	10	154,170	154,170
Property, plant and equipment	11	1,896,254,213	1,819,008,869
Intangible assets	12	249,723	491,507
		<b>1,896,658,106</b>	<b>1,819,654,546</b>
<b>Total Assets</b>		<b>2,021,629,164</b>	<b>1,902,399,561</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	13	-	2,387,021
Trade payables	14	115,193,649	102,867,332
VAT payable	50&53	-	12,097,173
Consumer deposits	15	501,679	483,449
Unspent conditional grants and receipts	16	814,517	-
Provisions	17	2,860,587	2,742,445
Long service bonus liability	18	1,307,000	389,000
		<b>120,677,432</b>	<b>120,966,420</b>
<b>Non-Current Liabilities</b>			
Provisions	17	22,497,139	18,948,551
Long service bonus liability	18	10,179,000	9,336,000
		<b>32,676,139</b>	<b>28,284,551</b>
<b>Total Liabilities</b>		<b>153,353,571</b>	<b>149,250,971</b>
<b>Net Assets</b>		<b>1,868,275,593</b>	<b>1,753,148,590</b>
Accumulated surplus		1,868,275,593	1,753,148,590



# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Statement of Financial Performance

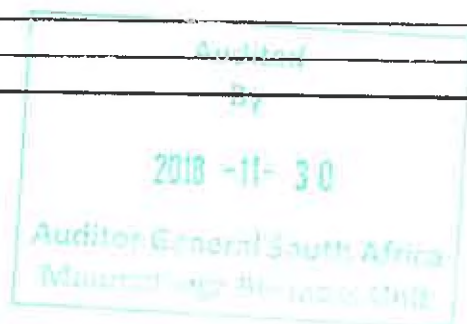
		30 June 2018 R	30 June 2017 Restated* R
	Note(s)		
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	19	84,674,578	68,318,306
Rental of facilities and equipment	20	404,089	333,801
Interest on receivables (trading)	21	25,877,818	20,846,457
Licences and permits	22	4,269,687	3,314,362
Operational revenue	23	12,021,385	5,249,063
Interest received - investment	24	3,529,215	3,940,080
Fair value adjustments		-	75,000
<b>Total revenue from exchange transactions</b>		<b>130,776,772</b>	<b>102,077,069</b>
<b>Revenue from non-exchange transactions</b>			
Property rates	25	39,063,321	33,003,582
Transfers and subsidies	26	505,218,353	462,773,437
Traffic fines		2,780,525	2,282,470
<b>Total revenue from non-exchange transactions</b>		<b>547,062,199</b>	<b>498,059,489</b>
<b>Total revenue</b>	27	<b>677,838,971</b>	<b>600,136,558</b>
<b>Expenditure</b>			
Employee related costs	28	(184,332,057)	(165,426,349)
Remuneration of councillors	29	(22,209,829)	(21,204,997)
Depreciation and amortisation	30	(53,567,745)	(59,028,649)
Impairment loss	31	(1,304,240)	(1,049,799)
Finance costs	32	(2,805,585)	(1,602,837)
Operating leases	33	(3,147,503)	(939,667)
Bad debts provision	34	(46,405,007)	(62,170,784)
Contracted services	35	(151,710,191)	(179,677,499)
Assets write down		-	(57,729,099)
Fair value adjustments	4	(259,121)	-
Actuarial gains recognised	18	(33,000)	(95,000)
Operational Cost	36	(95,047,178)	(93,098,231)
<b>Total expenditure</b>		<b>(560,821,456)</b>	<b>(642,022,911)</b>
<b>Surplus (deficit) for the year</b>		<b>117,017,515</b>	<b>(41,886,353)</b>

**Dr JS Moroka Local Municipality**

Annual Financial Statements for the ended June 30, 2018

**Statement of Changes in Net Assets**

	Accumulated surplus R	Total net assets R
<b>Balance at 01 July 2016 as restated</b>	<b>1,795,034,944</b>	<b>1,795,034,944</b>
Changes in net assets		
Surplus for the year	65,281,889	65,281,889
Correction of prior year errors (refer to note 42)	(107,168,243)	(107,168,243)
Total changes	(41,886,354)	(41,886,354)
<b>Restated* Balance at July 1, 2017</b>	<b>1,751,258,078</b>	<b>1,751,258,078</b>
Surplus for the year	117,017,515	117,017,515
Total changes	117,017,515	117,017,515
<b>Balance at June 30, 2018</b>	<b>1,868,275,593</b>	<b>1,868,275,593</b>



**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Cash Flow Statement**

	Note(s)	30 June 2018 R	30 June 2017 Restated* R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of services		65,660,964	49,529,458
Grants		472,419,754	427,408,000
Other receipts		10,293,436	19,936,912
		548,374,154	496,874,370
<b>Payments</b>			
Employee costs		(203,042,466)	(186,631,346)
Suppliers		(235,306,125)	(205,485,903)
Other payments		(9,817,358)	(1,941,061)
		(448,165,949)	(394,058,310)
<b>Net cash flows from operating activities</b>	39	<b>100,208,205</b>	<b>102,816,060</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	11	(98,928,934)	(98,829,317)
Purchase of other intangible assets	12	-	(425,890)
<b>Net cash flows from investing activities</b>		<b>(98,928,934)</b>	<b>(99,255,207)</b>
<b>Cash flows from financing activities</b>			
Finance lease payments		(2,387,023)	(3,265,832)
Benefit paid		(389,000)	(287,000)
Finance costs		-	(389,311)
<b>Net cash flows from financing activities</b>		<b>(2,776,023)</b>	<b>(3,942,143)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(1,496,752)</b>	<b>(381,290)</b>
Cash and cash equivalents at the beginning of the year		2,506,658	2,887,948
<b>Cash and cash equivalents at the end of the year</b>	9	<b>1,009,906</b>	<b>2,506,658</b>



# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Statement of Financial Performance</b>						
<b>Revenue from exchange transactions</b>						
<b>Revenue</b>						
Service charges	40,000,000	18,005,000	58,005,000	84,674,578	26,669,578	Consumer accounts were settle more than expected. More water supplied to Sekhukhune District
Rental of facilities and equipment	500,000	-	500,000	404,089	(95,911)	Less utilisation by the community members due to the poor conditions
Interest earned- Outstanding debtors	2,500,000	-	2,500,000	25,877,818	23,377,818	Increased due to non payment of services.
Licence and permits	5,000,000	-	5,000,000	4,269,687	(730,313)	Less licenses were issued during the year, delays in opening for testing centre
Other income	3,250,000	505,000	3,755,000	12,021,385	8,266,385	
Interest received - investment	5,500,000	4,250,000	9,750,000	3,529,215	(6,220,785)	Some interest forfeited due to early withdrawal of investment
<b>Total revenue</b>	<b>56,750,000</b>	<b>22,760,000</b>	<b>79,510,000</b>	<b>130,776,772</b>	<b>51,266,772</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	18,500,000	(5,000,000)	13,500,000	39,063,321	25,563,321	more properties were livied for property rates
<b>Transfer revenue</b>						
Government grants & subsidies	465,845,000	2,500,000	468,345,000	505,218,353	36,873,353	Donations received were incorporated in to the grants and subsidies as required by mSCOA

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Fines, Penalties and Forfeits	250,000	-	250,000	2,780,525	2,530,525	more tickets were issued during the year
<b>Total revenue from non- exchange transactions</b>	<b>484,595,000</b>	<b>(2,500,000)</b>	<b>482,095,000</b>	<b>547,062,199</b>	<b>64,967,199</b>	
<b>Total revenue</b>	<b>541,345,000</b>	<b>20,260,000</b>	<b>561,605,000</b>	<b>677,838,971</b>	<b>116,233,971</b>	
<b>Expenditure</b>						
Personnel	(179,997,000)	(4,713,000)	(184,710,000)	(184,332,057)	377,943	
Remuneration of councillors	(20,000,000)	(3,200,000)	(23,200,000)	(22,209,829)	990,171	
Depreciation and amortisation	(150,000,000)	-	(150,000,000)	(53,567,745)	96,432,255	
Impairment loss	-	-	-	(1,304,240)	(1,304,240)	
Finance costs	-	(250,000)	(250,000)	(2,805,585)	(2,555,585)	mainly due to the interest calculated for land fill sites and long service bonus
Contracted services	(45,750,000)	(11,750,000)	(57,500,000)	(151,710,194)	(94,210,194)	Due to the re- classification of mSCOA, most items were moved from Repairs and Maintenance to Contracted Services.
Debt Impairment	(39,495,000)	-	(39,495,000)	(46,405,007)	(6,910,007)	
Repairs and maintenance	(52,210,000)	8,890,000	(43,320,000)	-	43,320,000	Due to the re- classification of mSCOA, most items were moved from Repairs and Maintenance to Contracted Services
General Expenses	(130,850,696)	(522,000)	(131,372,696)	(96,394,423)	34,978,273	Due to the re- classification of mSCOA, the item forms part of General Expenditure
Actuarial gains recognised	-	-	-	(33,000)	(33,000)	
<b>Total expenditure</b>	<b>(618,302,696)</b>	<b>(11,545,000)</b>	<b>(629,847,696)</b>	<b>(558,762,080)</b>	<b>71,085,616</b>	
<b>Surplus before taxation</b>	<b>(76,957,696)</b>	<b>8,715,000</b>	<b>(68,242,696)</b>	<b>119,076,891</b>	<b>187,319,587</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(76,957,696)</b>	<b>8,715,000</b>	<b>(68,242,696)</b>	<b>119,076,891</b>	<b>187,319,587</b>	
<b>Reconciliation</b>						

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	4,863,037	-	4,863,037	3,516,457	(1,346,580)	Less inventory items were bought
Other financial assets	5,000,000	-	5,000,000	-	(5,000,000)	Stanlib investment account was closed during the financial year
Operating lease asset	-	-	-	89,800	89,800	
Receivables from exchange transactions	7,912,000	-	7,912,000	10,871,983	2,959,983	Increase of debtors due to non payment by debtors
Receivables from non-exchange transactions	-	-	-	756,700	756,700	
VAT receivable	-	-	-	7,072,426	7,072,426	
Consumer debtors	37,244,000	-	37,244,000	101,653,786	64,409,786	Increase of debtors due to non payment by consumers mainly due to early withdrawal of investments
Cash and cash equivalents	1,871,000	-	1,871,000	1,009,906	(861,094)	
	56,890,037	-	56,890,037	124,971,058	68,081,021	
<b>Non-Current Assets</b>						
Investment property	154,170	-	154,170	154,170	-	
Property, plant and equipment	1,909,449,000	-	1,909,449,000	1,896,254,213	(13,194,787)	more PPE projects were implemented in the current year, hence the increase
Intangible assets	774,000	-	774,000	249,723	(524,277)	No additions for intangible were procured during the year
	1,910,377,170	-	1,910,377,170	1,896,658,106	(13,719,064)	
<b>Total Assets</b>	<b>1,967,267,207</b>	<b>-</b>	<b>1,967,267,207</b>	<b>2,021,629,164</b>	<b>54,361,957</b>	

Approved  
by  
2018-11-30

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Trade payables	79,770,000	-	79,770,000	115,193,649	35,423,649	increase due to non payment, because of cash flow challenges
Consumer deposits	182,000	-	182,000	501,679	319,679	
Unspent conditional grants and receipts	-	-	-	814,517	814,517	
Provisions	4,595,000	-	4,595,000	2,860,587	(1,734,413)	
Long service bonus liability	-	-	-	1,307,000	1,307,000	
	84,547,000	-	84,547,000	120,677,432	36,130,432	
<b>Non-Current Liabilities</b>						
Provisions	39,437,000	-	39,437,000	22,497,139	(16,939,861)	
Long service bonus liability	-	-	-	10,179,000	10,179,000	
	39,437,000	-	39,437,000	32,676,139	(6,760,861)	
<b>Total Liabilities</b>	<b>123,984,000</b>	<b>-</b>	<b>123,984,000</b>	<b>153,353,571</b>	<b>29,369,571</b>	
<b>Net Assets</b>	<b>1,843,283,207</b>	<b>-</b>	<b>1,843,283,207</b>	<b>1,868,275,593</b>	<b>24,992,386</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	1,843,283,207	-	1,843,283,207	1,877,298,007	34,014,800	



**Dr JS Moroka Local Municipality**

Annual Financial Statements for the ended June 30, 2018

**Statement of Comparison of Budget and Actual Amounts**

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods and services	54,392,000	(2,137,000)	52,255,000	49,962,067	(2,292,933)	
Grants	439,592,000	2,500,000	442,092,000	427,408,000	(14,684,000)	
Interest income	13,000,000	(5,550,000)	7,450,000	-	(7,450,000)	
Other receipts	49,308,000	(28,354,000)	20,954,000	19,936,912	(1,017,088)	
	<b>556,292,000</b>	<b>(33,541,000)</b>	<b>522,751,000</b>	<b>497,306,979</b>	<b>(25,444,021)</b>	
<b>Payments</b>						
Employee costs and suppliers	(427,530,000)	34,724,826	(392,805,174)	(390,953,494)	1,851,680	
Finance costs	(159,000)	(51,000)	(210,000)	-	210,000	
Transfer and subsidies	(3,569,000)	(35,000)	(3,604,000)	(1,941,061)	1,662,939	
	<b>(431,258,000)</b>	<b>34,638,826</b>	<b>(396,619,174)</b>	<b>(392,894,555)</b>	<b>3,724,619</b>	
<b>Net cash flows from operating activities</b>	<b>125,034,000</b>	<b>1,097,826</b>	<b>126,131,826</b>	<b>104,412,424</b>	<b>(21,719,402)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(123,602,000)	-	(123,602,000)	(100,919,506)	22,682,494	
Purchase of other intangible assets	-	-	-	(425,890)	(425,890)	
<b>Net cash flows from investing activities</b>	<b>(123,602,000)</b>	<b>-</b>	<b>(123,602,000)</b>	<b>(101,345,396)</b>	<b>22,256,604</b>	
<b>Cash flows from financing activities</b>						
Finance lease payments	-	-	-	(3,265,832)	(3,265,832)	
Finance costs	-	-	-	(389,311)	(389,311)	
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(389,311)</b>	<b>(389,311)</b>	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,432,000</b>	<b>1,097,826</b>	<b>2,529,826</b>	<b>2,677,717</b>	<b>147,891</b>	
<b>Cash and cash equivalents at the beginning of the year</b>	<b>4,825,000</b>	<b>9,327,060</b>	<b>14,152,060</b>	<b>120,184,096</b>	<b>106,032,036</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>6,257,000</b>	<b>10,424,886</b>	<b>16,681,886</b>	<b>122,861,813</b>	<b>106,179,927</b>	
<b>Reconciliation</b>						

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note Changes in accounting policy.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

the useful life of the property, is as follows:

Item	Useful life
Property - land	indefinite

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Accounting Policies

### 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	5-50
Plant and machinery	Straight line	3 - 50
Furniture and fixtures	Straight line	3 - 20
Transport Assets	Straight line	3 - 20
Office equipment	Straight line	3 - 20
IT equipment	Straight line	3 - 20
Infrastructure	Straight line	3 - 60

## **Accounting Policies**

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### **1.3 Property, plant and equipment (continued)**

Community

Straight line

10 - 50

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the change in accounting policy.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### **1.4 Site restoration and dismantling cost**

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### 1.5 Intangible assets

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Accounting Policies

### 1.5 Intangible assets (continued)

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3 - 17

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### 1.6 Financial instruments

#### Classification

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

#### Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

#### Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Impairment losses are not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.



## **Accounting Policies**

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### **1.6 Investments in associates (continued)**

#### **Receivables from exchange transactions**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

#### **Payables from exchange transactions**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### **Bank overdraft and borrowings**

Bank overdrafts are initially measured at fair value, and are subsequently measured at amortised cost. The overdraft recorded as a liability in the statement of financial position.

#### **Impairment of financial assets**

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

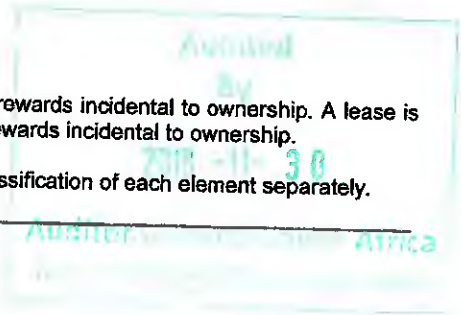
Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

### **1.7 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.



# **Dr JS Moroka Local Municipality**

Annual Financial Statements for the ended June 30, 2018

## **Accounting Policies**

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### **1.7 Leases (continued)**

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **1.8 Inventories**

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of the business.

The cost of inventories comprises of all costs of purchase, costs, of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### **1.9 Impairment of cash-generating assets**

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Audited  
By  
2018-11-30  
Auditor General of South Africa  
Director General of the Department of Public Works and Infrastructure

## **Accounting Policies**

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### **1.9 Impairment of cash-generating assets (continued)**

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

#### **Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### **Basis for estimates of future cash flows**

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.



# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Accounting Policies

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### 1.9 Impairment of cash-generating assets (continued)

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

### 1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

The salaries, allowances and benefits of Councillors are dealt with the upper limits of framework envisaged in section 219 of the constitution read with Remuneration of Public Office Bearers Act, Act no 20 of 1998 and section 124 of the Municipal Finance Management Act, Act 56 of 2003.

The salaries, wages, allowances and benefits for employees for rendering of services are recognised in the statement of financial performance in the period incurred.



# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Accounting Policies

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### 1.10 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

### 1.11 Provisions and contingencies

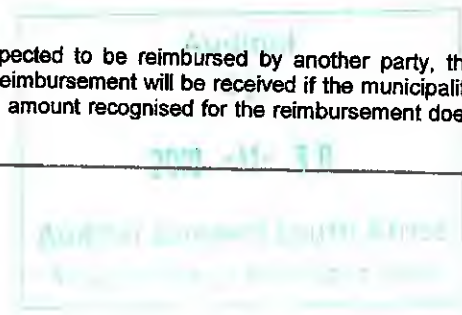
Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.



## **Accounting Policies**

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### **1.11 Provisions and contingencies (continued)**

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the note to annual financial statements..

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Accounting Policies

### 1.11 Provisions and contingencies (continued)

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

The related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.



# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Accounting Policies

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### 1.12 Revenue from exchange transactions (continued)

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Accounting Policies

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### 1.13 Revenue from non-exchange transactions (continued)

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### 1.14 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.15 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current .

### 1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.18 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.



# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Accounting Policies

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### 1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not condoned in terms of section 170;

Expenditure incurred by a municipality or municipal entity in Contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act 30 No. 20 of 1998); or

Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in 35 terms of such policy or by-law

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

### 1.20 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.21 Budget information

The general purpose of financial reporting by the municipality, shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2017 to 6/30/2018.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 18.

### 1.22 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national and provincial sphere of government are considered to be related parties.

## **Accounting Policies**

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### **1.22 Related parties (continued)**

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### **1.23 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### **1.24 Capital Commitments**

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in outflow of resources.

Capital commitments are not recognised in statement of financial position as a liability, but are included in the disclosure notes.

### **1.25 Value-Added Tax**

The municipality applies the payments basis for VAT purposes as per the Value-Added Tax Act. Output tax is payable as and when the purchase consideration are received and input will be claimed as and when payments is made.

### **1.26 Receivables form non-exchange transactions**

An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognised as an asset when , and only when:

- (a) It is probable that the future economic benefits or service potential associated with the asset will flow to the entity
- (b) The fair value of the assets can be measured reliably.

## **Notes to the Annual Financial Statements**

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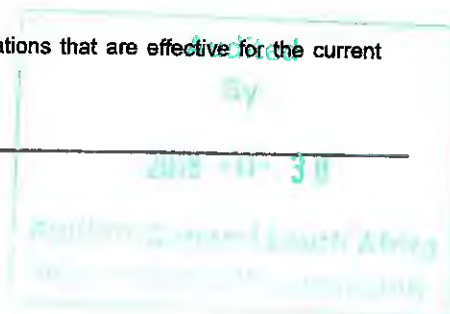
2018	2017
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## **2. New standards and interpretations**

### **2.1 Standards and interpretations effective and adopted in the current**

In the current , the municipality has adopted the following standards and interpretations that are effective for the current financial and that are relevant to its operations:



## Notes to the Annual Financial Statements

### 2. New standards and interpretations (continued)

#### Standard/ Interpretation:

- GRAP 20: Related parties
- GRAP 109: Accounting by Principals and Agents

**Effective date:**  
**Years beginning on or after**  
April 1, 2017  
April 1, 2017

**Expected impact:**

### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2018 or later periods:

#### Standard/ Interpretation:

- GRAP 34: Separate Financial Statements
- GRAP 35: Consolidated Financial Statements
- GRAP 36: Investments in Associates and Joint Ventures
- GRAP 37: Joint Arrangements
- GRAP 38: Disclosure of Interests in Other Entities
- GRAP 110: Living and Non-living Resources
- GRAP 12 (as amended 2016): Inventories
- GRAP 27 (as amended 2016): Agriculture
- GRAP 31 (as amended 2016): Intangible Assets
- GRAP 103 (as amended 2016): Heritage Assets
- GRAP 110 (as amended 2016): Living and Non-living Resources
- IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land
- Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities
- GRAP 26 (as amended 2016): Impairment of cash-generating assets
- GRAP 21 (as amended 2016): Impairment of non-cash-generating assets
- GRAP 18 (as amended 2016): Segment Reporting
- GRAP 17 (as amended 2016): Property, Plant and Equipment
- GRAP 16 (as amended 2016): Investment Property
- GRAP 106 (as amended 2016): Transfers of functions between entities not under common control

**Effective date:**  
**Years beginning on or after**

April 1, 2019

April 1, 2019

April 1, 2019

April 1, 2019

April 1, 2019

April 1, 2019

April 1, 2018

April 1, 2018

April 1, 2018

April 1, 2018

April 1, 2018

April 1, 2019

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April 1, 2018

April 1, 2018

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April 1, 2018

April 1, 2018

April 1, 2018

**Expected impact:**

Unlikely there will be a material impact

Unlikely there will be a material impact

Unlikely there will be a material impact

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Unlikely there will be a material impact

### GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

## **Notes to the Annual Financial Statements**

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### **2. New standards and interpretations (continued)**

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

#### **GRAP 7 (as revised 2010): Investments in Associates**

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

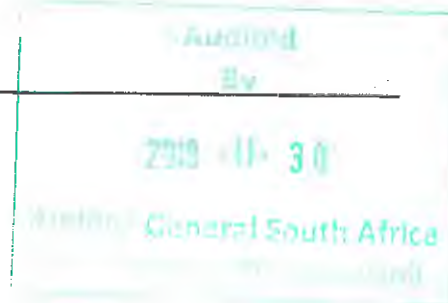
An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after April 1, 2015.



## **Notes to the Annual Financial Statements**

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### **2. New standards and Interpretations (continued)**

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after April 1, 2015.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity ('SPE') may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called 'autopilot'). The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ('capital providers') may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits or service potential of the SPE's activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE's net assets.

The Standard of GRAP on Consolidated and Separate Financial Statements requires the consolidation of entities that are controlled by the reporting entity. However, the Standard of GRAP does not provide explicit guidance on the consolidation of SPEs. The issue is under what circumstances an entity should consolidate an SPE. This interpretation of the Standards of GRAP does not apply to post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.

A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of the Standard of GRAP on Consolidated and Separate Financial Statements and this Interpretation of the Standards of GRAP may mean that the entity should consolidate the SPE. This Interpretation of the Standards of GRAP does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipality expects to adopt the interpretation for the first time in the 2015 annual financial statements.

Paragraph .54 in the Standard of GRAP on Interests in Joint Ventures refers to both contributions and sales between a venturer and a joint venture as follows: 'When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction'. In addition, paragraph 31 in the Standard of GRAP on Interests in Joint Ventures says that 'a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest'. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities ('JCEs').

Contributions to a JCE are transfers of assets by venturers in exchange for an interest in the net asset in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE ('additional consideration').



## Notes to the Annual Financial Statements

### 2. New standards and interpretations (continued)

The issues are:

- when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit;
- how additional consideration should be accounted for by the venturer; and
- how any unrealised gain or loss should be presented in the consolidated

This Interpretation of the Standards of GRAP deals with the venturer's accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipality expects to adopt the interpretation for the first time in the 2015 annual financial statements.

### 3. Inventories

Storm water supplies	127,819	593,200
Consumable stores	1,849,306	2,252,130
Mechanical supplies	367,644	371,035
Electrical supplies	374,687	410,772
Water supplies	287,833	217,483
Pipe fitting	509,168	280,362
	<b>3,516,457</b>	<b>4,124,982</b>

### 4. Other financial assets

#### Designated at fair value

Stanlib Collective Investments: Unit trusts (Acc No 1005687)	-	1,706,585
<b>Total other financial assets</b>	<b>-</b>	<b>1,706,585</b>

#### Current assets

Designated at fair value	-	1,706,585
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#### Financial assets at fair value

#### Fair values of financial assets measured or disclosed at fair value

Stanlib Investment opening balance	1,706,585	1,542,422
Additions for the year	-	89,163
Fair value adjustment	(259,121)	75,000
Withdrawals for the year	(1,447,464)	-
The investment has no defined maturity date.		
	<b>-</b>	<b>1,706,585</b>

### 5. Receivables from exchange transactions

Consumer agreement	181,823	1,786,000
Interest accrued	76,683	59,989
Debtors on sale of stands	1,049,777	1,089,977
Other receivables	9,563,700	9,563,700
	<b>10,871,983</b>	<b>12,499,666</b>

**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>6. Receivables from non-exchange transaction</b>		
Fines	9,590,830	7,003,765
Allowance for impairment	(8,834,130)	(5,383,268)
	<b>756,700</b>	<b>1,620,497</b>
<b>7. VAT Receivables</b>		
VAT	7,072,426	-
<b>8. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	100,673,353	72,157,985
Water	134,721,091	76,264,570
Sewerage	27,474,029	17,778,138
Refuse	28,714,604	18,546,709
Interest and other	74,776,876	97,300,351
	<b>366,359,953</b>	<b>282,047,753</b>
<b>Less: Allowance for impairment</b>		
Rates	(56,903,893)	(37,348,753)
Water	(94,841,836)	(60,548,639)
Sewerage	(24,528,531)	(16,177,496)
Refuse	(26,917,540)	(17,662,088)
Interest and other	(61,514,367)	(90,024,150)
	<b>(264,706,167)</b>	<b>(221,761,126)</b>
<b>Net balance</b>		
Rates	43,769,460	34,809,232
Water	39,879,255	15,715,931
Sewerage	2,945,498	1,600,642
Refuse	1,797,064	884,621
Interest and other	13,262,509	7,276,201
	<b>101,653,786</b>	<b>60,286,627</b>
<b>The following receivables from exchange transactions are included above</b>		
Water	39,879,255	19,048,446
Sewerage	2,945,498	1,634,476
Refuse	1,797,064	1,945,403
Interest and other	13,262,509	8,123,616
	<b>57,884,326</b>	<b>30,751,941</b>
<b>The following receivable from non-exchange transactions is included above</b>		
Rates	43,769,460	48,750,063
<b>Net balance</b>	<b>101,653,786</b>	<b>79,502,004</b>



**Dr JS Moroka Local Municipality**

Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>8. Consumer debtors (continued)</b>		
<b>Rates</b>		
Current (0 -30 days)	1,395,272	913,008
31 - 60 days	1,390,712	828,419
61 - 90 days	1,386,797	822,636
> 90 days	39,596,679	32,245,169
	<b>43,769,460</b>	<b>34,809,232</b>
<b>Water</b>		
Current (0 -30 days)	2,720,157	853,142
31 - 60 days	5,476,582	392,918
61 - 90 days	1,240,966	407,616
> 90 days	30,441,550	14,062,255
	<b>39,879,255</b>	<b>15,715,931</b>
<b>Sewerage</b>		
Current (0 -30 days)	253,122	24,064
31 - 60 days	199,541	21,360
61 - 90 days	105,172	18,749
> 90 days	2,387,663	1,536,469
	<b>2,945,498</b>	<b>1,600,642</b>
<b>Refuse</b>		
Current (0 -30 days)	203,281	23,801
31 - 60 days	134,801	22,957
61 - 90 days	124,773	22,551
> 90 days	1,334,409	815,312
	<b>1,797,064</b>	<b>884,621</b>
<b>Interest and other</b>		
Current (0 -30 days)	230,899	111,970
31 - 60 days	1,469,361	103,784
61 - 90 days	888,100	99,601
> 90 days	10,674,149	6,960,846
	<b>13,262,509</b>	<b>7,276,201</b>

**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>8. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Government</b>		
Current (0 -30 days)	6,135,736	8,128,199
31 - 60 days	9,034,089	4,662,377
61 - 90 days	4,167,902	4,209,607
91 - 120 days	3,284,960	4,099,877
>121days	61,099,686	45,070,165
<b>Less: Allowance for impairment</b>	<b>83,722,373</b> <b>(13,673,648)</b>	<b>66,170,225</b> <b>(5,874,746)</b>
	<b>70,048,725</b>	<b>60,295,479</b>
<b>Business</b>		
Current (0 -30 days)	849,660	913,963
31 - 60 days	794,346	725,107
61 - 90 days	605,866	694,326
91 - 120 days	448,167	551,632
121 - 365 days	21,256,305	15,839,804
<b>Less: Allowance for impairment</b>	<b>23,954,344</b> <b>(22,914,788)</b>	<b>18,724,832</b> <b>(15,839,804)</b>
	<b>1,039,556</b>	<b>2,885,028</b>
<b>Households and Other</b>		
Current (0 -30 days)	5,179,197	3,758,120
31 - 60 days	6,149,558	3,317,755
61 - 90 days	6,098,803	3,737,291
91 - 120 days	5,983,665	3,201,856
121 - 365 days	235,272,013	180,251,730
<b>Less: Allowance for impairment</b>	<b>258,683,236</b> <b>(228,117,731)</b>	<b>194,266,752</b> <b>(177,945,255)</b>
	<b>30,565,505</b>	<b>16,321,497</b>
<b>Total</b>		
Current (0 -30 days)	12,164,593	12,800,282
31 - 60 days	15,977,993	8,705,239
61 - 90 days	10,872,571	8,641,224
> 90 days	327,344,796	251,901,008
<b>Less: Allowance for impairment</b>	<b>366,359,953</b> <b>(264,706,167)</b>	<b>282,047,753</b> <b>(221,761,126)</b>
	<b>101,653,786</b>	<b>60,286,627</b>
<b>Less: Allowance for impairment</b>		
Current (0 -30 days)	(8,966,254)	(7,986,392)
31 - 60 days	(8,877,180)	(19,965,981)
61 - 90 days	(246,862,733)	(193,808,753)
	<b>(264,706,167)</b>	<b>(221,761,126)</b>
<b>Total debtor past due but not impaired</b>		
>121 days	61,099,686	41,501,894

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>8. Consumer debtors (continued)</b>		
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(221,761,126)	(161,379,175)
Contribution to provision	(42,945,041)	(60,381,951)
	<b>(264,706,167)</b>	<b>(221,761,126)</b>

## 9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	1,009,906	2,300,461
Short-term investments	-	206,197
	<b>1,009,906</b>	<b>2,506,658</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2018	30 June 2017	June 30, 2016	June 30, 2018	30 June 2017	June 30, 2016
ABSA BANK - 406-952-9871- Cheque account	87,262	178,692	21,070	87,262	178,692	21,070
ABSA BANK - 40-5285-3972 - cheque account (Primary Account)	828,559	2,560,555	2,889,080	828,560	2,093,636	2,866,878
ABSA BANK - 40-9074-1909- Cheque account	94,088	1,000	-	94,088	1,000	-
FNB - 62685633060 - Fixed deposit	-	26,506	-	-	26,506	-
<b>Total</b>	<b>1,009,909</b>	<b>2,766,753</b>	<b>2,910,150</b>	<b>1,009,910</b>	<b>2,299,834</b>	<b>2,887,948</b>

## 10. Investment property

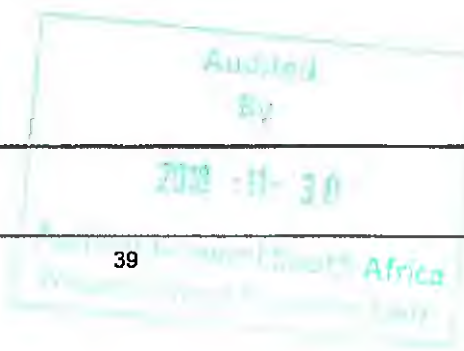
	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	154,170	-	154,170	154,170	-	154,170

### Reconciliation of investment property - 2018

	Opening balance	Total
Land	154,170	154,170

### Reconciliation of investment property - 2017

	Opening balance	Total
Investment property	154,170	154,170



## Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

### Notes to the Annual Financial Statements

2018  
R

2017  
R

#### 10. Investment property (continued)

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Details of valuation

The valuation was based on the report conducted by HP Matidza professional valuer (Reg No: 4953/7) from Ndlala Mass valuation. The general evaluation came into effect on 01 July 2014.

The valuations was based on deemed cost approach, in line with the municipality adopted approach in valuation of investment properties. The deemed cost is described as per GRAP Directive 7 [4].

#### 11. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	334,819,504	-	334,819,504	334,819,504	-	334,819,504
Buildings	85,050,562	(62,896,945)	22,153,617	85,050,562	(58,150,083)	26,900,479
Plant and machinery	29,286,448	(12,593,503)	16,692,945	25,936,448	(9,556,666)	16,379,782
Furniture and fixtures	13,808,654	(7,915,321)	5,893,333	12,978,838	(6,609,837)	6,369,001
Transport assets	42,603,839	(27,895,901)	14,707,938	41,765,701	(25,223,191)	16,542,510
Office equipment	4,030,459	(2,387,563)	1,642,896	3,909,559	(1,935,311)	1,974,248
IT equipment	15,941,077	(5,490,476)	10,450,601	12,739,402	(3,230,282)	9,509,120
Infrastructure	1,429,415,504	(190,177,388)	1,239,238,116	1,238,219,566	(156,072,253)	1,082,147,313
Community	172,365,975	(88,138,593)	84,227,382	168,234,370	(83,635,809)	84,598,561
Assets under construction	166,427,881	-	166,427,881	237,876,984	-	237,876,984
Other leased Assets	-	-	-	8,487,694	(6,596,327)	1,891,367
<b>Total</b>	<b>2,293,749,903</b>	<b>(397,495,690)</b>	<b>1,896,254,213</b>	<b>2,170,018,628</b>	<b>(351,009,759)</b>	<b>1,819,008,869</b>

**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

Figures in Rand

**11. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2018**

	Opening balance	Additions	Transfer	Donations received	Depreciation	Impairment	Total
Land	334,819,504	-	-	-	-	-	334,819,504
Buildings	26,900,479	-	-	-	(4,746,862)	-	22,153,617
Plant and machinery	16,379,782	-	-	3,350,000	(2,103,713)	(933,124)	16,692,945
Furniture and fixtures	6,369,001	829,822	-	-	(926,207)	(379,283)	5,893,333
Transport Assets	16,542,510	838,138	-	-	(2,672,710)	-	14,707,938
Office equipment	1,974,248	145,200	-	-	(218,774)	(257,778)	1,642,896
IT equipment	9,509,120	3,065,431	-	136,243	(1,580,518)	(699,675)	10,450,601
Infrastructure	1,082,147,313	-	161,270,271	29,925,668	(34,105,136)	-	1,239,238,116
Community	84,598,561	-	4,229,175	-	(4,600,354)	-	84,227,382
Assets under construction	237,876,984	94,050,343	(165,499,446)	-	-	-	166,427,881
Other leased Assets	1,891,367	-	-	-	(1,891,367)	-	-
	<b>1,819,008,869</b>	<b>98,928,934</b>	<b>-</b>	<b>33,411,911</b>	<b>(52,825,641)</b>	<b>(2,269,860)</b>	<b>1,896,254,213</b>

**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

Figures in Rand

**11. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2017**

	Opening balance	Additions	Transfer	Depreciation	Impairment	Total
Land	334,819,504	-	-	-	-	334,819,504
Buildings	32,095,478	-	-	(5,194,999)	-	26,900,479
Plant and machinery	17,528,862	879,336	-	(2,028,416)	-	16,379,782
Furniture and fixtures	6,345,825	689,010	-	(665,834)	-	6,369,001
Transport Assets	18,554,567	-	-	(2,012,057)	-	16,542,510
Office equipment	2,117,887	29,865	-	(173,504)	-	1,974,248
IT equipment	10,035,125	229,350	-	(755,355)	-	9,509,120
Infrastructure	1,057,643,027	14,293,056	42,136,056	(31,924,826)	-	1,082,147,313
Community	88,284,188	-	642,887	(3,278,715)	(1,049,799)	84,598,561
Assets under construction	181,744,679	98,911,249	(42,778,944)	-	-	237,876,984
Other leased Assets	5,325,508	-	-	(3,434,141)	-	1,891,367
	<b>1,754,494,650</b>	<b>115,031,866</b>	<b>(1)</b>	<b>(49,467,847)</b>	<b>(1,049,799)</b>	<b>1,819,008,869</b>

**WIP projects taking a significantly longer period of time to complete than expected**

**Fresh Produce Project**

21,121,696

The Fresh Produce Project started in 2008 first payment was in 2009. Due to various factors such as community protests regarding the initial site of the project, the Municipality was forced to move the project to its current location during the 2012/2013 financial year. The project has been delayed with community protests since inception, during 2013/2014 financial year the delays were due to contractor not having material on site due to cash flow problems. Further more there delays due to sub contractor not being paid hence they stopped work. Due to the slow progress of the initial contractor and his unwillingness to complete project on time, a new contractor had to be appointed which caused further delays. The revised completion date was 2015 but was once again delayed due to community protests causing the project not to be completed. The new completion date was scheduled for 2016/2017 financial year end but due to protest in May to July of 2016 the project was further delayed.

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
11. Property, plant and equipment (continued)		

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.



**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

				2018 R	2017 R
<b>12. Intangible assets</b>					
		2018			2017
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment
Computer software	1,453,883	(1,204,160)	249,723	1,453,883	(962,376)
					491,507

**Reconciliation of Intangible assets - 2018**

	Opening balance	Amortisation	Total
Computer software	491,507	(241,784)	249,723

**Reconciliation of Intangible assets - 2017**

	Opening balance	Additions	Amortisation	Total
Computer software, other	443,607	425,890	(377,990)	491,507

**13. Finance lease obligation**

Minimum lease payments due - within one year	-	2,470,563
less: future finance charges	-	2,470,563
	-	(83,542)
<b>Present value of minimum lease payments</b>	-	<b>2,387,021</b>
<b>Present value of minimum lease payments due - within one year</b>	-	<b>2,387,021</b>

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 3-5 years and the average effective borrowing rate was 9% (2017: 9%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

**14. Trade payables**

Trade payables	39,411,658	39,129,524
Income received in advance	1,120,260	1,561,108
ENatis	5,226,056	1,088,493
Leave accrued	18,822,408	16,615,267
Accrued bonus	4,243,730	4,533,135
Payroll accruals	860,391	670,701
Third party payables	4,191,473	-
Retentions	41,317,673	39,269,104
	<b>115,193,649</b>	<b>102,867,332</b>

**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>15. Consumer deposits</b>		
Water	466,769	120,524
Refuse	7,702	-
Housing rental	27,208	362,925
	<b>501,679</b>	<b>483,449</b>

**16. Unspent conditional grants and receipts**

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts WSIG	814,517	-
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**Movement during the**

Balance at the beginning of the year	-	294,802
Additions during the	139,817,000	124,984,000
Income recognition during the	(139,002,483)	(125,278,802)
	<b>814,517</b>	<b>-</b>

See note 26 for reconciliation of grants from National/Provincial Government.

**17. Provisions**

**Reconciliation of provisions - 2018**

	Opening Balance	Change in estimates	Interest charge	Total
Siyabuswa landfill	15,200,665	1,188,340	1,312,912	17,701,917
Libangeni landfill	6,490,331	637,347	528,131	7,655,809
	<b>21,690,996</b>	<b>1,825,687</b>	<b>1,841,043</b>	<b>25,357,726</b>

**Reconciliation of provisions - 2017**

	Opening Balance	Change in estimates	Interest charge	Total
Siyabuswa landfill	13,696,003	1,504,662	-	15,200,665
Libangeni landfill	5,416,137	616,184	458,010	6,490,331
	<b>19,112,140</b>	<b>2,120,846</b>	<b>458,010</b>	<b>21,690,996</b>

Non-current liabilities	22,497,139	18,948,551
Current liabilities	2,860,587	2,742,445
	<b>25,357,726</b>	<b>21,690,996</b>

**Environmental rehabilitation provision**

The municipality has two landfill site for which the calculation was made and those calculations of the closure costs have been based on an estimations.

Siyabuswa landfill estimated 20 years in 2011 and the landfill has now been closed, a remaining life of zero years has been used for these valuations since 2013.

The expected remaining life of the Libangeni landfill is estimated at 32 years.

**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>18. Long service bonus liability</b>		
<b>Reconciliation of assets and liabilities</b>		
Opening accrued liability	9,725,000	8,088,000
Service cost	1,236,000	1,109,000
Interest cost	881,000	720,000
Acturial gain/loss	33,000	95,000
Benefit paid	(389,000)	(287,000)
	<b>11,486,000</b>	<b>9,725,000</b>

**Nature of Liability**

The employer's long service bonus awards consist of an obligation to pay out a bonus in the year of the employee attaining the required service. This obligation represents a liability to the employer and the value is represented by the present value of the total long service bonus awards expected to become payable under the employer's current policy. Dr JS Moroka offers bonuses for every 5 years of completed service from 10 years to 45 years.

Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed. Dr JS Moroka advised that in most cases, employees choose to exercise the option to wholly convert their accumulative leave bonus days into cash.

**Summary of actuarial assumptions**

The long service bonus awards are a function of accumulated leave days. The long service bonus awards is a function of annual leave days and is convertible into cash in the year the employee attains the service eligible for an award. As a result the award is also function of the employee's annual salary.

The annual salary is converted into a daily salary by dividing the annual salary by 250. The consumer price inflation of 6.82% p.a. is obtained from the differential between the long term market yield on the index-linked bond (the R197 at 1.56% p.a.) consistent with the estimated term of the liabilities and those of nominal bond (the R186 at 8.48% p.a.). However, it is the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values. We have assumed that salary inflation will exceed consumer price inflation by 1% per annum. The assumption regarding the relative levels of these two rates is our expectation of the long-term average. Accounting Standard IAS19 defines the determination of the investment return assumption to be used as the rate that can "be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used.

The currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations." As such a discount rate of 8.51% p.a. has been used. This was derived from the yield curve, without a tax adjustment, obtained from the Bond.

**Liability valuation method**

Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining these liabilities, due allowance has been made for future award increases. For each employee, this projection is based on the probability of being employed at each service award date, taking into account the assumed rates of withdrawal, early retirement and death. In accordance with the requirements of IAS19, the Projected Unit Credit method of funding has been applied.

**19. Service charges**

Sale of water	70,906,745	54,495,419
Sewerage and sanitation charges	7,191,639	7,427,007
Refuse removal	6,576,194	6,395,880
	<b>84,674,578</b>	<b>68,318,306</b>

During the year the water billing changed from meter readings to flat rate, a resolution to that effect is in place.

**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>20. Rental of facilities and equipments</b>		
Municipal buildings	157,518	117,517
Community halls	186,215	138,160
Stadium	34,661	26,500
Bussiness stalls	25,696	51,624
	<b>404,090</b>	<b>333,801</b>
<b>21. Interest on receivables</b>		
Interest on arrears accounts	25,877,817	20,837,502
Interest on trading accounts	-	8,955
	<b>25,877,817</b>	<b>20,846,457</b>
<b>22. Licence and permits</b>		
Motor licencing	4,062,700	3,190,616
Trading licence	206,987	123,746
	<b>4,269,687</b>	<b>3,314,362</b>
<b>23. Operational revenue</b>		
Community service fee	290,756	460,798
Advertising	133,819	231,909
Sundry income	772,792	635,662
Application for tenders	1,306,611	1,334,007
Agency fee	2,849,041	2,291,428
Administration fees	6,668,366	295,259
	<b>12,021,385</b>	<b>5,249,063</b>
<b>24. Interest received</b>		
Interest revenue		
Interest on fixed deposit	3,529,215	3,940,080

## Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

### Notes to the Annual Financial Statements

	2018 R	2017 R
<b>25. Property rates</b>		
<b>Rates received</b>		
Residential	8,891,799	9,109,480
Commercial	6,969,412	8,311,614
State	24,617,866	21,022,235
Small holdings and farms	445,856	187,914
Less: Income forgone	(1,861,612)	(5,627,661)
	<b>39,063,321</b>	<b>33,003,582</b>
<b>Valuations Roll</b>		
Residential	1,271,706,520	1,271,706,520
Commercial	122,020,597	122,020,597
State	1,137,910,050	1,137,910,050
Small holdings and farms	406,139,461	406,139,461
	<b>2,937,776,628</b>	<b>2,937,776,628</b>

The valuation on land and building are performed every 5 years. The general Valuation roll came into effect on the 01 July 2014. The basic rates of R0.017252 (R0.001540: 2016) on the value of agricultural land and buildings, R0.017252 (R0.017252:2016) on the value of commercial business land and buildings, R0.017252 (R0.017252:2016) on the value of state land and buildings and R0.0072 (R0.0072:2016) on the value of residential land and buildings are applied to determine assessment rates. These rates were agreed to the approved tariff policy.

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>26. Transfers and Subsidies</b>		
Equitable share	328,528,000	302,718,802
Municipal Infrastructure Grant	132,371,000	119,102,000
Financial Management Grant	1,700,000	1,625,000
WSIG Grant	1,685,483	-
EPWP Grant	3,246,000	4,257,000
Education Training and Development Practices SETA	279,818	-
Nkangala District Municipality - donations	33,411,908	20,830,346
Department of Culture, Sport and Recreation	-	562,451
Mpumalanga Economic Growth Agency	-	2,351,275
Department of Public Works - sale of stands	3,996,144	11,326,563
	<b>505,218,353</b>	<b>462,773,437</b>

### Equitable Share

In terms of section 227 of the Constitution, the equitable share grant is used to subsidise the provision of basic services and the day to day operations of the municipality.

### Municipal Infrastructure grant

Current-year receipts	132,557,694	119,102,000
Conditions met - transferred to revenue	(132,557,694)	(119,102,000)
	-	-

Conditions still to be met - remain liabilities (see note 16).

The grant is used to supplement municipal capital budgets to eradicate backlogs on municipal infrastructure utilised in providing basic services. Other than the unspent amount, the conditions of the grant were met and no funds have been withheld.

### Financial Management Grant

Current-year receipts	1,700,000	1,625,000
Conditions met - transferred to revenue	(1,700,000)	(1,625,000)
	-	-

Conditions still to be met - remain liabilities (see note 16).

The purpose of the grant is to promote and support reforms to financial management and the implementation of the MFMA. Other than the unspent amount, the conditions of the grant were met and no funds have been withheld.

**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>26. Transfers and Subsidies (continued)</b>		
<b>MSIG</b>		
Balance unspent at beginning of	-	99,224
Return to Treasury	-	(99,224)
	-	-

Conditions still to be met - remain liabilities (see note 16).

The grant was used to assist the municipality in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the local government municipal systems act 32 of 2000. Other than the unspent amount, the conditions of the grant were met and no funds have been withheld.

**EPWP**

Current-year receipts	3,246,000	4,257,000
Conditions met - transferred to revenue	(3,246,000)	(4,257,000)
	-	-

Conditions still to be met - remain liabilities (see note 16).

The grant was used to provide poverty and income relief through temporary work for the unemployed to carry out socially useful activities. Other than the unspent amount, the conditions of the grant were met and no funds have been withheld.

**WSIG Grant**

Current-year receipts	2,500,000	-
Conditions met - transferred to revenue	(1,685,483)	-
	814,517	-

The grant was used to finance the refurbishment, operation and maintenance of the water treatment plant.

**Changes in level of government grants**

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

**27. Revenue**

Service charges	84,674,578	68,318,306
Rental of facilities and equipment	404,089	333,801
Interest received (trading)	25,877,818	20,846,457
Licences and permits	4,269,687	3,314,362
Operational revenue	12,021,385	5,249,063
Interest received - investment	3,529,215	3,940,080
Property rates	39,063,321	33,003,582
Transfers and subsidies	505,218,353	462,773,437
Fines, Penalties and Forfeits	2,780,525	2,282,470
	677,838,971	600,061,558

**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>27. Revenue (continued)</b>		
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	84,674,578	68,318,306
Rental of facilities and equipment	404,089	333,801
Interest on receivables	25,877,818	20,846,457
Licences and permits	4,269,687	3,314,362
Operational Revenue	12,021,385	5,249,063
Interest received - investment	3,529,215	3,940,080
	<b>130,776,772</b>	<b>102,002,069</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
Taxation revenue		
Property rates	39,063,321	33,003,582
Transfer revenue		
Transfers and subsidies	505,218,353	462,773,437
Fines, Penalties and Forfeits	2,780,525	2,282,470
	<b>547,062,199</b>	<b>498,059,489</b>

**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>28. Employee related costs</b>		
Basic	119,299,848	110,398,721
Bonus	9,679,895	8,607,743
Medical aid - company contributions	9,768,427	8,829,462
UIF	898,317	937,392
SDL	1,563,369	1,297,307
Leave pay provision	2,602,540	2,414,893
Pension fund contribution	23,558,155	22,093,711
Travel, motor car, accommodation, subsistence and other allowances	8,293,662	4,379,723
Overtime payments	637,034	3,358,991
Acting allowances	1,391,210	-
Housing benefits and allowances	1,130,523	2,099,470
Cellphone allowance	1,119,976	931,091
Bargaining council	56,783	48,709
Group life contributions	28,910	29,136
Standby Allowance	4,303,408	-
	<b>184,332,057</b>	<b>165,426,349</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	654,962	1,167,483
Contributions to UIF, Medical and Pension Funds	73,308	241,362
Benefits and allowances	90,956	201,669
	<b>819,226</b>	<b>1,610,514</b>
For the duration of 2017/2018 financial year, the accounting officer for the municipality was Mr Mahlangu BS whose contract ended on 31 July 2017. Mrs Rampedi MR was appointed by council as the acting accounting officer effective from 01 August 2017 to 7 November 2017. Mr Mvenselwa J Mahlangu was appointed as the accounting officer effective from 8 November 2017 and he passed away on 28 February 2018. Mr Monkoe MF was appointed as acting accounting officer from 1 March 2018.		
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	661,500	453,067
Backpay	53,424	-
Annual Bonuses	-	37,755
Contributions to UIF, Medical and Pension Funds	159,870	105,862
Acting allowance	-	172,842
Benefits and allowances	269,105	201,626
	<b>1,143,899</b>	<b>971,152</b>
<b>Remuneration of Technical Manager</b>		
Annual Remuneration	682,079	775,589
Backpay	53,424	4,660
Contributions to UIF, Medical and Pension Funds	163,738	150,321
Benefits and allowances	140,502	123,192
Acting allowance	-	82,218
	<b>1,039,743</b>	<b>1,135,980</b>
<b>Remuneration of Community Development Services Manager</b>		
Annual Remuneration	621,400	586,765
Acting allowance	28,925	27,348
Annual Bonus	-	37,756

**Dr JS Moroka Local Municipality**

Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>28. Employee related costs (continued)</b>		
Contributions to UIF, Medical and Pension Funds	207,847	199,068
back pay	53,424	-
Benefits and allowances	218,156	230,819
	<b>1,129,752</b>	<b>1,081,756</b>

**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>28. Employee related costs (continued)</b>		
<b>Remuneration of Adim &amp; Corporate Services Manager</b>		
Annual Remuneration	786,736	769,205
Backpay	53,424	4,660
Contributions to UIF, Medical and Pension Funds	143,710	141,864
Acting allowance	69,277	-
Benefits and allowances	145,365	143,213
	<b>1,198,512</b>	<b>1,058,942</b>
<b>29. Remuneration of councillors</b>		
Executive Mayor	490,484	777,347
Speaker	831,352	718,541
Chief Whip	699,334	641,447
Members of Moyoral Committee	3,215,426	3,404,332
Chairpersons of section 79 committees	2,859,764	2,575,319
Other councillors	14,113,469	13,088,011
	<b>22,209,829</b>	<b>21,204,997</b>
<b>30. Depreciation and amortisation</b>		
Property, plant and equipment	53,567,745	59,028,649
<b>31. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	1,304,240	1,049,799
<b>32. Finance costs</b>		
Finance leases	83,541	424,827
Other interest	2,722,044	1,178,010
	<b>2,805,585</b>	<b>1,602,837</b>
<b>33. Operating leases</b>		
<b>Photo copying machine</b>		
Operating lease expenditure	3,147,503	939,667
<b>Minimum Lease payments</b>		
Due within 1 year	4,196,671	-
Due within 2 to 5 years	5,245,839	-
	<b>9,442,510</b>	<b>-</b>
The operating lease constitutes a lease for printers by the Municipality. The lease was effective 01 October 2017 and will run for a period of 36 months. Upon termination of the contract the Municipality must return the goods at its own expense to the service provider in good working order and condition, fair wear and tear expected		
<b>34. Bad debts provision</b>		
Movement in bad debts provision	46,405,007	62,170,784

**Dr JS Moroka Local Municipality**

Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>35. Contracted services</b>		
Information Technology Services	7,887,642	11,550,697
Repairs and Maintenance	54,177,440	60,068,765
Security	29,540,905	29,437,578
Specialist Services	16,069,613	22,570,626
Other Contractors	44,034,591	56,049,833
	<b>151,710,191</b>	<b>179,677,499</b>
<b>36. Operational Cost</b>		
Advertising	707,954	822,562
Auditors remuneration	5,179,697	4,037,350
Bank charges	199,723	171,225
Cleaning	4,986,949	2,701,991
Heritage	-	615,160
Donations	-	6,539,017
Refreshment	1,553,609	1,201,424
Community development and training	-	1,743,772
Conferences and seminars	2,896,701	2,612,037
IT expenses	3,722,298	945,564
Motor vehicle expenses	3,748,382	602,480
Printing and stationery	4,125,913	2,638,849
Subscriptions and membership fees	1,859,272	1,481,047
Telephone and fax	972,325	84,178
Training	891,083	2,527,049
Travel - local	3,071,847	3,862,944
Electricity	31,694,765	31,319,257
Uniforms	820,496	15,200
Tourism development	101,324	137,050
Waste management	-	89,400
Free basic services	9,817,358	1,961,057
Compensation commission	1,014,259	1,438,611
Landfill	1,825,687	2,120,846
Ward committee Support	4,099,351	2,395,554
Consumables	604,952	6,925,258
Other expenses	11,153,233	13,367,929
Restructuring	-	741,420
	<b>95,047,178</b>	<b>93,098,231</b>
<b>37. Fair value adjustments</b>		
Other financial assets		
• Other financial assets (Designated at FV through statement of financial performance)	(258,121)	75,000
<b>38. Auditors' remuneration</b>		
Fees	5,179,697	4,037,350

**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>39. Cash generated from operations</b>		
Surplus (deficit)	117,017,515	(41,886,353)
<b>Adjustments for:</b>		
Depreciation and amortisation	53,567,745	59,028,649
Assets written down	-	57,729,099
Gain/loss on long service benefit	33,000	95,000
Fair value adjustments	259,121	(75,000)
Finance costs	2,805,584	1,602,837
Impairment loss	1,304,240	1,049,799
Debt impairment	46,405,007	62,170,784
Movements in operating lease assets and accruals	(89,800)	-
Donation (non cash)	(33,275,665)	(17,197,391)
Free basic services	9,817,358	1,961,057
Service cost	1,236,000	1,109,000
<b>Changes in working capital:</b>		
Inventories	608,525	458,840
Trade receivables	(84,395,739)	(72,052,742)
Receivable non exchange transaction	(2,596,171)	14,981,949
Receivable exchange transaction	105,503	1,354,110
Trade payables	5,742,834	23,399,182
VAT	(19,169,599)	9,080,274
Unspent conditional grants and receipts	814,517	(294,802)
Consumer deposits	18,230	301,768
	<b>100,208,205</b>	<b>102,816,060</b>

**40. Commitments**

**Authorised capital expenditure**

**Already contracted for but not completed**

• Property, plant and equipment	36,520,874	82,717,969
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**Total capital commitments**

Already contracted for but not provided for	36,520,874	82,717,969
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**Authorised operational expenditure**

**Total commitments**

**Total commitments**

Authorised capital expenditure	36,520,874	82,717,969
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This committed expenditure relates to rental of plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated, etc.

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 41. Contingencies

#### Contingent liabilities

1. Dumisani J Mashiga - This is a claim against the municipality in the amount of R700 000 in respect of wrongful arrest and detention.



## Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

### Notes to the Annual Financial Statements

2018 R	2017 R
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#### 41. Contingencies (continued)

2. Thathazakho Taxi Association - This is a claim against the municipality which dispute relating to two rival taxi association regarding a taxi route with the municipality as one of the respondents and ordered to implement the court order.

3. Mozma Trading Case no. 1565/2017 - This is a claim against the municipality for breach of contract for the amount of R1 267 194-92 including interest of 15.5% from the date of the breach.

4. Black Archives - To defend a claim for monies due for services allegedly rendered by the Plaintiff in the matter, such "damages" being in the sum of R 87, 612.92. Our offices are attending to set down our exception in the matter for argument.

5. E.B. Shiga - Our offices have received no further pleadings or notices from the Plaintiff's attorneys to date and are of the view that: The Plaintiff in the matter have instructed their attorneys on a contingency basis / and/or have run out of funds in the matter; and that in light of same, it is strongly advisable that our offices take no further action until prompted by the Plaintiff's attorneys. It is strongly possible at this stage that the matter may die a quiet and slow death and intend to pend the matter accordingly. We trust same is in order and shall report further in due course. The Plaintiff is claiming damages from the Municipality. Instructions given to defend the matter. Potential claim against the Municipality: R 900, 000.00, plus interest and legal costs.

6. Ndhlovu A J Inc - Our offices are attending to serve our Bill of cost upon the opposing side, following which, the matter will be set down by the court for taxation. Our offices shall report further in due course. The Plaintiff withdrew its Action in the sum of R 412, 635.00 against the Municipality, agreeing to pay the latter's Party and Party Costs. Tax Bill of Costs. No risk to the Municipality.

7. Aubrey Sindane - Our offices are attending to serve our Bill of cost upon the opposing side, following which, the matter will be set down by the court for taxation. Our offices shall report further in due course. Tax a Bill of Costs. No risk to the Municipality.

8. Mahlangu Attorneys - Our offices are attending to serve our Bill of cost upon the opposing side, following which, the matter will be set down by the court for taxation. Our offices shall report further in due course. Defend the action for outstanding legal fees, brought by the Plaintiff. No risk to the Municipality. Action withdrawn.

9. Brian Tebogo Phatlane - The Plaintiff in the matter, upon receiving our previous correspondence regarding jurisdiction over the road in question, has, in contravention of the agreement between the parties to withdraw the action against the municipality, attended to apply for joinder of the MEC for Mpumalanga for Public Works, Roads and Transport. Based on the grounds that said application does not prejudice the municipality's rights, our offices have not opposed same (said opposition would have placed the municipality at financial risk). Our offices will, however, remind the Plaintiff's attorneys of their obligation in terms of the agreement between the parties, failing their compliance in terms thereof, our offices shall attend to report the conduct of the Plaintiff's attorneys to the law society of the northern provinces. Our offices shall report further in due course. The Plaintiff is claiming payment of delictual damages in the sum of R 709, 953.32 from the Municipality, together with interest thereon at 10.25 % and costs of suit. Instructions given to defend the action for delictual damages brought by the Plaintiff's attorneys. Risk to Municipality: R 709, 953.32, plus costs and interest.

10. Johannes Maobane - Our offices have, to date, not received the written proof of authority by the Applicant's attorney, to act on behalf of all of the applicants in the matter. Our offices shall attend to deliver our mock bill and pend our file, awaiting further proof from the said attorneys. The Applicant has made application to the Pretoria High Court for an order, uplifting a stay of execution on a writ for movable property against the Municipality for the sum of R51, 666.75 (which amount was in terms of a Bill of Costs which the Municipality intended and took steps to Review). Defend the application brought by the Applicants in the matter. Potential risk: (minimal given legal steps taken and lack of any response from Applicant's attorneys) R51, 666.75, plus interest and legal costs.

11. Bopape Elizabeth Maite - Kindly be advised that our offices have received a Notice of Set Down, setting down our Exception in the matter for 25 September 2018 (the Plaintiff appears not to have complied with the practice directives in terms of setting same down). Our offices shall report further in due course. The Plaintiff is suing the Municipality for delictual damages in the sum of 25, 000, 000.00, being in respect of injury to a minor child as a result of allegedly falling off a concrete water pipe which formed part of works being attended to by the Municipality. Defend the action for delictual damages brought by the Plaintiff's attorneys. Potential risk: R25, 000, 000.00, plus interest and legal costs.

12. Interdict Unlawful Occupation - Our offices have, following a recent site visit with Counsel in the matter, have proposed that

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Notes to the Annual Financial Statements

2018  
R

2017  
R

### 41. Contingencies (continued)

Client attend to urgently furnish our offices with a list of documents and availability of various parties for the purposes of attending to an informal and carefully planned approach (meeting) with the interested parties for the purposes of expediting settlement, removal of the two structures and buy-in by the potential occupants, into the existing development plan. Our offices shall report further in due course. Our offices have been instructed to interdict unlawful occupants from occupying Municipal owned property. Evict unlawful occupants of Municipal owned land. Potential risk to Municipality: None at this point.

13. Ditiro IT Resource & Services and Sizwe IT - The Plaintiff in the matter, Sizwe IT Group, has served Summons in the matter upon the municipality and our offices have attended to serve and intention to defend and Plea in the matter. Our offices have received Notices to remove causes of complaint in terms of Rule 23 (1) and Rule 30 of the Uniform Rules, to which, Counsel has prepared a response and an objection thereto has been raised by the Plaintiff's attorneys. Our offices shall report further in due course. A rental agreement between the parties has lapsed and the Municipality require that the service provider remove the machinery rented from Municipal premises, as same is frustrating the new service providers execution of its mandate to perform in terms of a Service Level Agreement entered into with the Municipality. Instructions Demand removal of machinery owned by the opposing party and/or make application compelling same. Potential risk against municipality: R3, 418,270.20, plus interest and legal costs.

14. Merchant West - Our offices have attended to write a letter to the Plaintiff, requesting copies of the alleged Master Rental Agreement, together with all supporting documentation in support of their alleged claim. Our offices shall report further in due course. Our offices have been instructed in the matter to defend a potential action by the Plaintiff in terms of a Letter of Demand, to make payment in the sum of R302,508.53, being monies allegedly owing in terms of a Master Rental Agreement for services rendered by the Plaintiff to the Municipality. To defend the contemplated action in the matter. Potential risk to Municipality: R302, 508.53, plus interest and legal costs.

### Contingent assets

1. The Curve / Crystal Spark JV - This is a claim by the Municipality on the amount of R5 996 572.09. The curve failed to perform its obligations in terms of the agreement with the municipality.

2. J.J. Mamabolo - Our offices have been unsuccessful with settlement negotiations with the debtor herein and are attending to proceed with litigation of the matter. Municipality's claim against the Defendant: R65,047.39, plus interest and legal costs. Payment in the sum of R 65, 047.39 in respect of contractual damages in respect of a Learnership Agreement, together with interest and legal costs.

3. P.M. Mtsweni - Our offices have been unsuccessful with settlement negotiations with the debtor herein and are attending to proceed with litigation of the matter. Payment in the sum of R 47, 085.00 in respect of contractual damages in respect of a Learnership Agreement and Payment in the sum of 59, 280.85 in respect of monies erroneously paid by the Municipality to the latter, together with interest and legal costs. Municipality's total claim against the Defendant: R 106, 365.85, plus interest and legal costs.

4. T.S. Mahlangu - Our offices have been unsuccessful with settlement negotiations with the debtor herein and are attending to proceed with litigation of the matter. Payment in the sum of R 32, 831. 00 in respect of contractual damages in respect of a Learnership Agreement, together with interest and legal costs. Municipality's claim against the Defendant: R 32, 831. 00, plus interest and legal costs.

5. There are work in progress projects to be donated by Nkangala district municipality on completion the details are as follows

Project No	Project description	Amount
4151/16	Replace asbestos pipes	12 631 925.65
34393	Kabenziwa storm water	239 981.44
34404	Kakarela road	566 503 .50

**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>42. Prior period errors</b>		
k		
1. Property, Plant and Equipment		
Balance as previously reported		1 883 411 686
Adjustment for prior period errors		(63 830 106)
Restated balance		1 819 581 580
There restatement is due to Buildings, Infrastructure and Community assets which were duplicated and which were no longer in use. All adjustment for restatement is due to engineer findings and recommendations. In the year 2016, infrastructure (Bloedfontein project) was completed but not capitalised to infrastructure it was still under WIP.		
2. Service charges		
Balance as previously reported		65 432 360
Adjustment for prior period errors		2 885 945
Restated balance		68 318 305
Correction of errors ( negative billings and over billing of customers account) on the billing report for basic service charges to ensure that the billing report is inline with the tariff structures.		
3. Property rates		
Balance as previously reported		57 693 651
Adjustment for prior period errors		(24 690 069)
Restated balance		33 003 582
Correction of errors of overstatement of revenue as a result of debit note fom property rates related to 2009/10 to 2014/15		
4. Other financial assets		
Balance as previously reported		1 556 585
Adjustment for prior period errors		150 000
Restated balance		1 706 585
Correction closing balance of investment account for stanlib was not correspond with bank confirmation as 30 June 2017 after realising that fair value adjustment journal was not procced correctly		
5. Furniture & Fittings		
Balance as previously reported		665,833.73
Adjustment to incorrect depreciation		15,263.00
Balance restated		681,098.73.
Correction of error of overstatement of prior year depreciation		
6. Office Equipment		
Balance as previously reported		173 504.13
Adjustment to incorrect depreciation		(60 567.13 )
Balance restated		112 937.00
Correction of error of understatement of prior year depreciation		
7. Computer equipment		
Balance as previously reported		755 355.31
Adjustment to incorrect depreciation		(15 088.31)
Balance restated		740 267.00
Correction of error of understatement of prior year depreciation		
8. Plant and machinery		
Balance as previously reported		2 028 415.79
Adjustment to incorrect depreciation		- 192 635.79

**Dr JS Moroka Local Municipality**  
Annual Financial Statements for the ended June 30, 2018

**Notes to the Annual Financial Statements**

	2018 R	2017 R
<b>42. Prior period errors (continued)</b>		
Balance restated		1 835 780.00
Correction of error of understatement of prior year depreciation		
9. Bad debts provision		
Balance as previously reported		40 071 334
Adjustment to incorrect write off		79 828 548
Balance restated		119 899 882
Correction of provision for bad debts was under provided in 2017.		

The correction of the error(s) results in adjustments as follows:

**Statement of financial position**

Decrease in property, plant and equipment	-	(63,840,106)
Decrease in Consumer debtors	-	(19,215,376)
Increase in Other financial assets	-	150,000
Decrease in accumulated surplus	-	106,605,532

**Statement of Financial Performance**

Increase in Depreciation and amortization	-	4,073,063
Increase in Service charges	-	(2,885,945)
Decrease in Property rates	-	24,690,069
Increase in Provision for bad debts	-	79,828,548
Increase in Fair value adjustment	-	(150,000)
Increase in Impairment of assets	-	1,049,799

**Change in accounting policy**

**43. Comparative figures**

Certain comparative figures have been reclassified.

During the financial year the municipality adopted the mSCOA, this resulted in the reclassification of some votes in the financial statements.

The effects of the reclassification are as follows:

**Statement of financial position - extract**

	Comparative figures previously reported	Reclassification n	After reclassification
Consumer deposits	-	483,449	483,449
Trade payables	103,350,781	(483,449)	102,867,332
<b>Total</b>	<b>103,350,781</b>	<b>-</b>	<b>103,350,781</b>

## Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

### Notes to the Annual Financial Statements

Figures in Rand

#### 43. (continued)

##### Statement of financial performance - extract

	Comparative figures previously reported	Reclassification n	After reclassification
Repairs and maintenance	60,258,540	(60,258,540)	-
Contracted services	76,168,167	80,227,153	156,395,320
Transfers and subsidies (Revenue)	427,702,802	35,070,635	462,773,437
General expenses	135,327,636	(18,947,223)	116,380,413
Transfers and subsidies (Expenditure)	1,961,057	(1,961,057)	-
Donations	35,070,635	(35,070,635)	-
Operating lease	-	939,667	939,667
<b>Total</b>	<b>736,488,837</b>	<b>-</b>	<b>736,488,837</b>

#### 44. Risk management

##### Financial risk management

##### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

##### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

##### Market risk

##### Interest rate risk

The municipality's interest risk arises from unit trust of the municipality.

##### Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position at fair value. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality.

surplus for the would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified a available-for-sale.

#### 45. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

#### 46. Events after the reporting date

There were no material events after reporting date that required adjustments in the financial statements.:

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 47. Unauthorised expenditure

Opening balance	74,875,779	21,931,903
Current	14,888,081	52,943,876
	<b>89,763,860</b>	<b>74,875,779</b>

The current unauthorised expenditure of R14 888 081 is due to the overspending of various votes not the total amount appropriated in the municipal approved budget.

### 48. Fruitless and wasteful expenditure

Opening balance	3,890,783	3,832,687
Current year	431,324	58,096
	<b>4,322,107</b>	<b>3,890,783</b>

The fruitless and wasteful expenditure for current year of R431 324 is related to interest on over due accounts.

Mentioned matters have been referred to council committee for investigation.

### 49. Irregular and unauthorised expenditure

Opening balance	273,993,493	315,876,071
Add: Irregular Expenditure - current year	150,554,914	173,219,943
Written off	-	(215,102,521)
Amounts for prior year identified in the current year	127,249,107	-
	<b>551,797,514</b>	<b>273,993,493</b>

### Analysis of irregular expenditure

Irregular expenditure for current year is related to non compliance with SCM regulations	150,554,914	-
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### 50. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Opening balance	2,226,728	983,413
Current year subscription / fee	1,795,094	2,292,728
Amount paid - previous years	(2,351,545)	(1,049,413)
	<b>1,670,277</b>	<b>2,226,728</b>

### Material losses

Water distribution loss	11,683,723	13,833,087
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The water losses was determined by using actual kilolitre pumped and water billed at cost per kilolitre of R2.39 (R2.39 2017).

### Audit fees

Amount paid - current year	5,179,697	4,598,670
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## Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

### Notes to the Annual Financial Statements

Figures in Rand

#### 50. Additional disclosure in terms of Municipal Finance Management Act (continued)

##### PAYE and UIF

Current year subscription / fee	20,556,005	20,813,816
Amount paid - current year	(20,556,005)	(20,813,816)
	-	-

##### VAT

VAT receivable	7,072,426	-
VAT payable	-	12,097,173
	7,072,426	12,097,173

VAT output payables and VAT input receivables are shown in note 7.

All VAT returns have been submitted by the due date throughout the



# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 50. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following councillors have arrear accounts outstanding for more than 90 days at June 30, 2018:

June 30, 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mahlangu DP	200	-	200
Skosana CB	370	384	754
Nkoane MR	881	6,444	7,325
Nkoane NN	377	766	1,143
Madonsela TL	245	-	245
Mdluli DM	1,691	4,658	6,349
Nkadimeng SL	754	1,453	2,207
Mathebe RS	2,186	13,072	15,258
Phaahla SM	1,389	9,884	11,273
Mthiwethafa NC	364	79	443
Shabangu MM	1,273	2,763	4,036
Mtsweni MG	2,605	16,823	19,428
Ntlalane MS	169	-	169
Ratsoma PG	663	-	663
Mashishi MW	727	624	1,351
Sekwala JM	712	233	945
Komape AN	621	1,198	1,819
Banda MD	377	465	842
Mthimunya WE	436	2,540	2,976
Mkoneni JT	370	384	754
Masango A	364	79	443
Matji JS	364	79	443
Makgaloa CM	931	2,909	3,840
Leballo JM	364	79	443
Nkgodi JS	364	79	443
Lebelo LK	364	79	443
Mabena ME	364	79	443
Nyatio TM	364	79	443
Lekalakala TI	364	79	443
Mputhi JM	201	-	201
Mahlangu S	364	79	443
Makola KD	364	79	443
Moselane MM	364	79	443
Mahlangu K	364	79	443
Masilela ML	364	79	443
Malajie RJ	364	79	443
Mashigoana DK	1,670	3,897	5,567
Masombuka NZ	1,345	4,581	5,926
Mtsweni DN	364	79	443
Ntuli KB	364	79	443
Baloyi LW	364	79	443
Selala HN	1,439	-	1,439
Rankapole MM	369	219	588
Ratladi SJ	843	5,375	6,218
Namane AM	364	79	443
Sibanyoni LB	1,456	6,646	8,102
Ndlovu AZ	1,201	-	1,201
Mojela BN	364	79	443
Skosana JC	364	79	443
Mkhondo MS	364	79	443
Makoala VD	863	-	863

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 50. Additional disclosure in terms of Municipal Finance Management Act (continued)

	34,372	87,056	121,428
30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mahlangu JS	-	413	413
Skosana GJ	-	257	257
Nkoane MR	-	98	98
Sibanyoni LB	-	604	604
Banda MD	-	62	62
Mdluli DM	-	241	241
Nkadimeng SL	-	58	58
Mathebe RS	-	371	371
Phaahla SM	-	111	111
Mthiwethafa NC	-	413	413
Shabangu MM	-	166	166
Mtsweni MG	-	1,723	1,723
Nkoane NN	-	62	62
Masango A	-	413	413
Mputhi M	-	413	413
Mthimunya WE	-	78	78
Skosana JC	-	413	413
Masilela ML	-	413	413
Namane AM	-	413	413
Mojela BN	-	413	413
Mkhondo MS	-	413	413
Majiti JS	-	413	413
Makgaloa CM	-	186	186
Leballo JM	-	413	413
Nkgodi MR	-	413	413
Lebelo LK	-	413	413
Mabena ME	-	413	413
Nyatlo TM	-	413	413
Lekalakala TI	-	413	413
Legong TB	-	413	413
Majombosi TR	-	413	413
Makola KD	-	413	413
Moselane MM	-	413	413
Mahlangu K	-	413	413
Ngoatle MM	-	413	413
Malajtie RJ	-	413	413
Mashigoana DK	-	183	183
Masombuka NZ	-	242	242
Ngoako MM	-	56	56
Mtsweni DN	-	413	413
Ntuli KB	-	413	413
Baloyi LW	-	413	413
Selala HN	-	413	413
Rankapole MM	-	413	413
Ratladi SJ	-	413	413
Magakela BM	-	413	413
Komape AN	-	111	111
	-	16,999	16,999

# Dr JS Moroka Local Municipality

Annual Financial Statements for the ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 50. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.

<b>Incident</b>		
Entertainment	638,885	256,873
Repair and Maintenance	34,798	1,780,652
Advertisement	126,953	79,115
Transport	-	271,410
Training	-	581,386
Other	2,081,265	627,559
	<b>2,881,901</b>	<b>3,596,995</b>

### 51. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The municipality incurred expenditure amounting to R1 417 140 (2016: R3 596 995) during the financial under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

### 52. Particulars of Non - Compliance with the MFMA of 2003

<b>Details</b>		
Irregular and unauthorised expenditure	400,933,754	315,876,071
Fruitless and Wasteful Expenditure	4,322,107	3,832,687
Unauthorised expenditure	82,637,572	21,931,903
	<b>487,893,433</b>	<b>341,640,661</b>

The Municipality did not comply with the MFMA act 56 of 2003 on the above mentioned expenditures

### 53. VAT payable

Tax refunds payables	-	12,097,173
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